

Market Merger Task Force: Addendum to Final Recommendations

Analysis of the Impact of Transitioning Groups of One to the Individual Market
February 8, 2008

This analysis was done for the Commissioner after the final meeting of the Market Merger Task Force.

Background: Market Merger Study Findings

There are currently 6,376 groups of one (13,930 members) in the small group market. Groups of one account for about half (46%) of all Rhode Island small groups and 13% of small group members. The membership in groups of one is comparable to the number of individual market members – there are 13,805 individual market members.

Groups of one are currently given the option to choose to purchase health insurance through the individual or small group markets. This is unlike any other segment of the market, as individual market enrollment is generally reserved for those who do not have access to commercial insurance.

This choice of either the individual market or small group has resulted in a different demographic mix for each pool. As shown below, the individual market pool is predominantly single adults, on either end of the age spectrum: There is a disproportionate share of younger adults (under age 35) and older adults (over age 55) in the individual market pool. Alternatively, groups of one purchasing in small group tend to be families, with subscriber age disproportionately between 35 and 55. This is consistent with the differences in plan design – the richer benefits available in small group likely appeal to families.

Figure 1: Demographic Comparison: Groups of One vs. Individual Market

Membership		Direct Pay	Gr of 1*	Total	%DP	<i>Membership is about evenly distributed</i>
	Contracts	9,368	6,376	15,744	60%	
	Members	13,805	13,930	27,735	50%	
Family Composition		Single	Husband -Wife	Parent -Child	Family	<i>Significant variation -- DP mostly individuals, Groups of One mostly families</i>
	Direct Pay	78%	8%	1%	13%	
	Groups of 1*	48%	13%	11%	28%	
Age		% >55	% <35			<i>Significant variation – DP has both ends of age spectrum – consistent with family status</i>
	Direct Pay	39%	25%			
	Groups of 1*	17%	10%			
Plan Designs: Benefit Richness		Direct Pay	Groups of 1*			<i>Significant variation – SmG plan designs are much richer</i>
	Average Benefit Factor	68%	90%			
Health Status, Adj Claims Experience		Direct Pay	Groups of 1*			<i>Similar health status and adjusted claims experience</i>
	Adjusted Claims	\$309	\$321			
	Average Health Band	0.99	0.98			

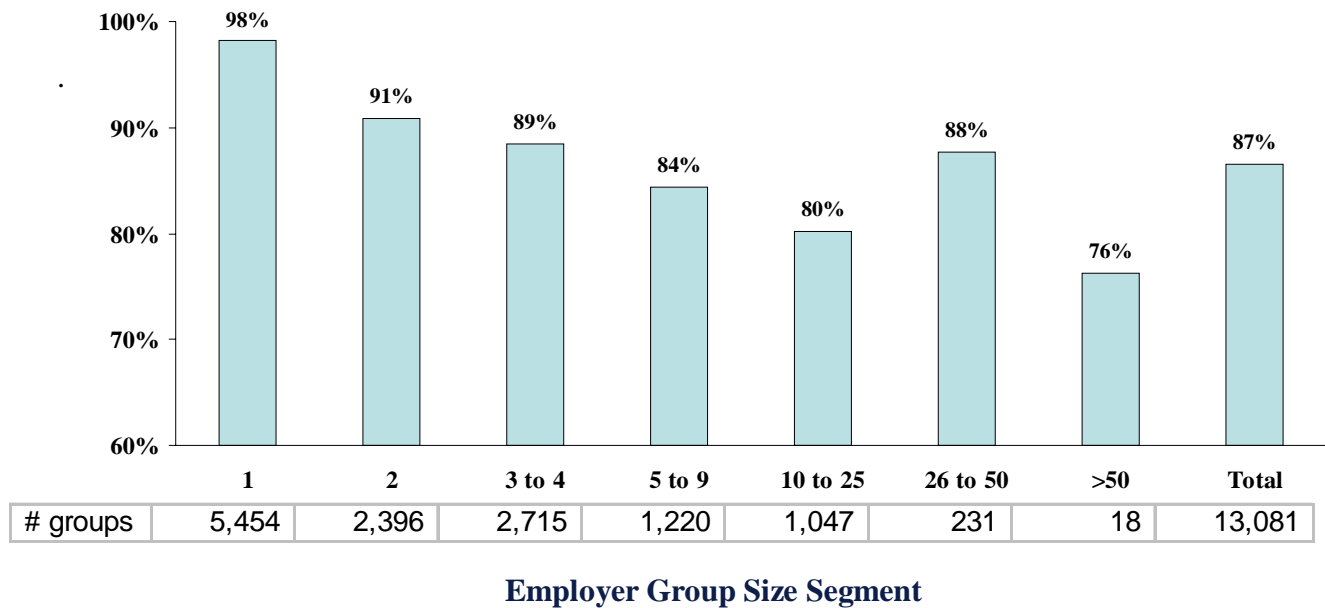
*Membership includes 909 United contracts and 1781 United members. However, experience data is based entirely on BCBSRI experience.

Final Merger Study Recommendations

A primary task of the original study was to determine the impact of merging individual market members into the small group market. Based on the experience in Massachusetts, it was anticipated that this change would result in significant rate reductions for individual market members. As reported in the Task Force Final Recommendations, the results were surprising – individual market subscriber rates would actually increase between 10-15% if they were moved into the small group market. Based on these results, the task force recommended that the individual market should not merge into the small group market.

Given the apparent advantages of the individual market rates vs. small group, the task force also recommended that the groups of one transition to the individual market. In addition, the task force recommended adding a 10% rating factor for groups of one in the small group market, to reflect their significantly higher cost base, as shown below:

Figure 2: Small group medical loss ratio by group size



- **BCBSRI:** 7% of groups and 39% of subscribers were in groups of 11 or more
- **United:** 14% of groups and 52% of subscribers were in groups of 11 or more

Source: Market Conduct Study data and analysis, 2005. BCBSRI data only.

Transitioning Groups of One to the Individual Market: Additional Considerations

After the final recommendations were approved, some additional questions regarding the impact of moving groups of one to the individual market were identified, and are discussed below.

Groups of one vs. one enrollee

Groups of one, as identified and modeled in this study, include all small groups with one subscriber. However, many of these “modeled groups of one” likely have more than one employee, but only one employee is enrolled in the health benefit plan. The requirement for groups of one to purchase in the individual market *would only apply to that subset of groups that are actually sole proprietors*, with only one employee.

Grandfather clause: Retaining choice for current groups of one

The task force did NOT recommend (nor would Federal law allow) for existing groups of one to be “forced to switch” to a new coverage option. As such, the new requirements for groups of one to purchase in the individual market would apply to new employers only – existing groups of one purchasing in the small group markets would not be required to switch coverage.

Benefit options

The benefit choices in the individual market are more limited than the small group market. All of the plan designs offered in the individual market include significant member cost sharing at the point of service. As such, the task force recommended that an additional product offering should be added to the individual market portfolio to provide a plan design for newly required groups of one that is more similar to existing small group plan designs

Impact Assessment: Transitioning Groups of One to the Individual Market

The estimated impact of transitioning groups of one is based on the current pool of small employers with one enrollee. This is an imperfect measure for many reasons:

1. These specific employers would not be required to transition, given the grandfather provision described above
2. As described above, many of these employers likely have more than one employee but only one enrollee, so are not technically groups of one and would not be required to purchase direct pay
3. The benefit differences between small group and the individual market are significant, and the analysis does not adjust for the addition of a richer, individual market plan design.

Notwithstanding these caveats, we estimate that transitioning the groups of one to direct pay would result in a two tiered outcome:

Those groups of one who pass medical underwriting would see an average rate reduction of 11%. However, those who did not pass medical underwriting would face an average rate increase of 43%.¹ In addition, these averages can be misleading, as there would be a wide range of winners and losers around this average depending upon the starting age, family composition, and health status of the subscriber, as shown below:

Figure 3:
Percent Change to rates for groups of one if transitioned to individual market

	Pass medical underwriting (go to pool 2)						Do not pass medical underwriting (go to pool 1)					
	M	F	HW	PC	Fam	Avg	M	F	HW	PC	Fam	Avg
<25	-2%	-28%	30%	33%	-23%	-7%	272%	74%	134%	141%	43%	n/a
25-29	9%	-17%	46%	50%	-12%	5%	272%	74%	134%	141%	43%	160%
30-34	25%	-10%	48%	41%	-17%	13%	266%	55%	123%	114%	28%	128%
35-39	32%	-15%	44%	34%	-19%	4%	198%	49%	106%	91%	18%	90%
40-44	13%	-13%	32%	26%	-23%	-5%	139%	38%	84%	77%	10%	71%
45-49	3%	-14%	17%	29%	-25%	-7%	80%	23%	55%	71%	0%	45%
50-54	-4%	-12%	5%	30%	-26%	-11%	31%	6%	24%	54%	-12%	18%
55-59	-16%	-20%	-13%	23%	-35%	-16%	-12%	-15%	-9%	29%	-31%	-11%
60-64	-24%	-24%	-28%	10%	-43%	-24%	-15%	-15%	-31%	6%	-42%	-18%
Total	-4%	-17%	9%	28%	-27%	-11%	77%	24%	45%	69%	-2%	43%

Addendum Conclusions

Given the wide range of winners and losers, and the current volatility of the insurance market, the OHIC recommends that the groups of one retain the choice of small group insurance.

¹ These estimates assume that there is a 10% rating factor applied to groups of one in the small group market. Without this rating factor, the average impact for pool 2/pool 1 would be -1% and +53%, respectively.